DOW THEORY LETTERS INC.

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Feb. 27, DJIA 972.61; PTI 529; A-D ratio - 22.50
Mar. 5, DJIA 972.92; PTI 535; A-D ratio - 22.65

THE MARKET: I have just enjoyed a super-quick, three-day vacation (although in this business, vacation or not, you have to keep up your charts or you do the counterpart of what is known in swimming as drowning). At any rate, time's up and its back to stock city. I list below in chronological order the peaks of the various indices for the current primary bull market through March 9:

Date of Peak	Indicator	Peak Value
February 4	D-J Utility Average	91.90
February 20	Daily New Highs, NYSE	451
February 24	Advance-Decline Ratio, NYSE	-21.64
February 25	D-J Industrial Average	994.57
February 25	D-J Transportation Average	208.99
March 1	D-J 40-Bond Average	72.27
March 8	Cumulative Most-Active Stock Index	-752
March 9	Primary Trend Index (PTI)	547

In the last Letter I stated that it would be preferable for the market to back off prior to any assault on Dow 1,000. Such action would give every skeptic a perfect excuse and opportunity to sell. This is exactly what did occur. The Dow obliged by dropping near the 960 area at the end of February. Nevertheless, the decline in the Dow Averages (which began Feb. 26) was most interesting in that no divergence or non-confirmation appeared at the peaks. The fact is that both Industrials and Transports turned down simultaneously on February 25, and this, to my mind, was far preferable to a downturn following a non-confirmation.

This action, so far, has moved me to the following thoughts: (1) The market has literally been advertising that "any Dow try for 1,000 will fail." The market also seemed to be warning everyone to "bail out and run for the hills." This easily read (far too easily read, in my opinion) warning was probably a healthy development. It was technical preparation for a Dow attack on the 1,000 barrier.

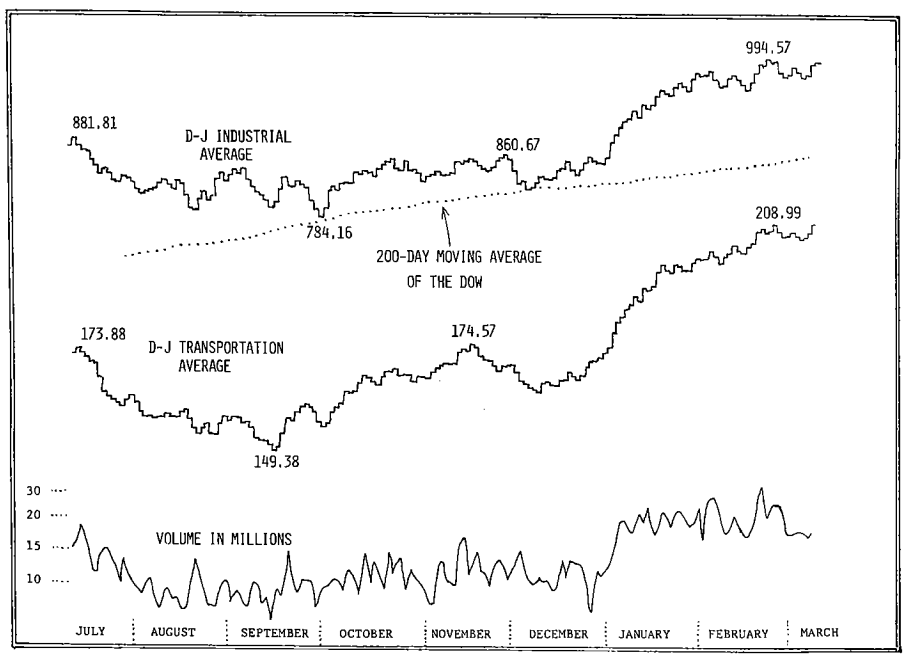
(2) I believe that the decline of the past few weeks represented a 1976 version of the March-April, 1975 decline in the market. The 1975 decline was followed by a second buying stampede (carrying from April to July, 1975 as seen on the page 2 chart). If the Industrials and Transports can now push to joint new highs, we could witness a major extension of the current (ongoing) stampede.

(3) There is a wide body of opinion that holds that "1050 to 1100 will be the top for the Dow, even assuming the Dow can move decisively above 1000." Now I don't really know a blasted bit more than the skeptics do regarding where this market is ultimately going, but I have learned one thing. In a primary bear market it's a risky procedure to have preconceived notions about where a bull swing "has to halt." More often than not, those preconceived notions will prove to have been dead wrong.

As this is written, both Averages are within striking distance of their highs for this bull market (see above tabulations). The PTI is at a new high (see page 2 chart). From the bull's standpoint, ideal action would be new highs in both Industrials and Transports, perhaps a day or so of additional hesitancy (with skeptics continuing to sell), then a push above the 1000 level by the Dow.

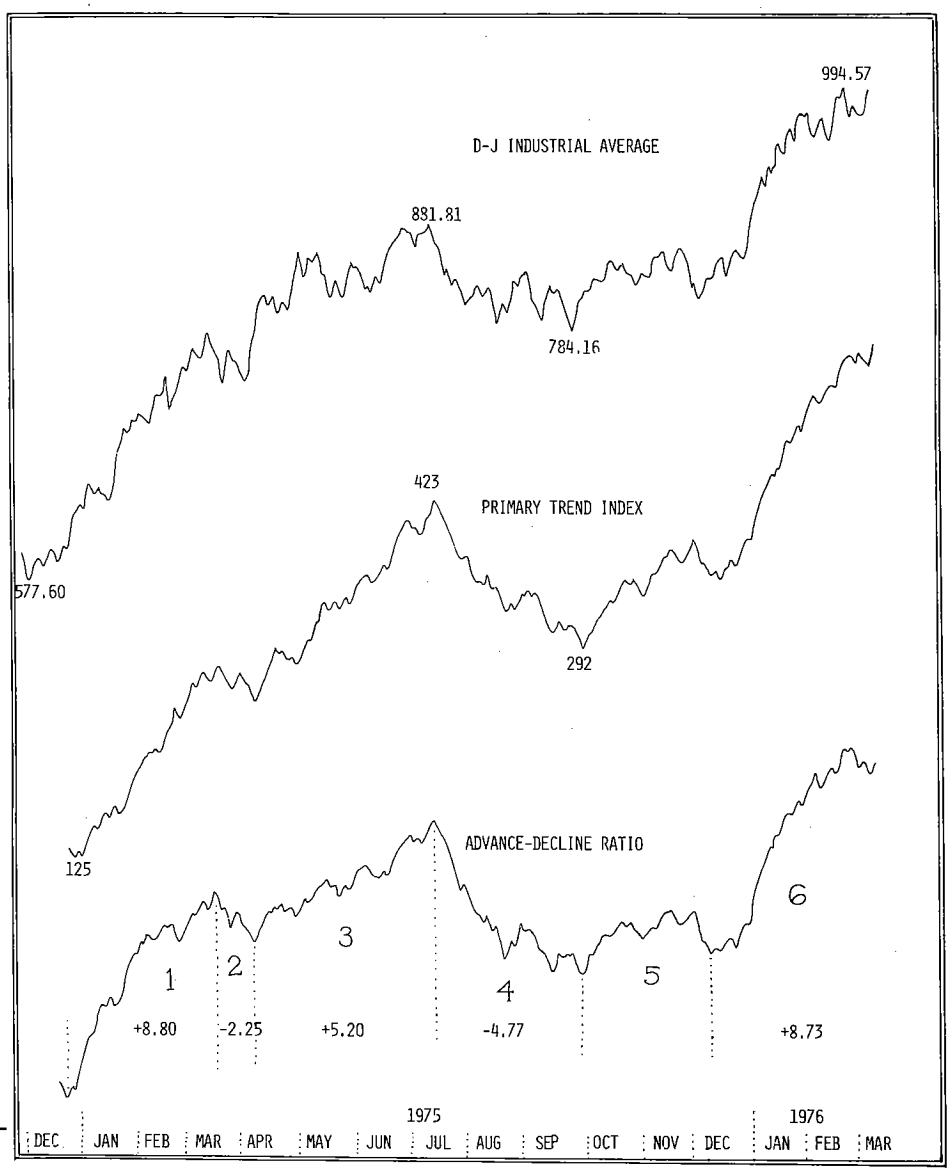
There has been much pooh-poohing and denigrating of the "Dow 1000 level," and many have called 1000 just a figment in the public's mind. I disagree. My feeling is that once the Dow gets above 1000 and holds there, holds solidly so that the stubbornest bear is forced to revise his thinking, at that point we will see a powerful wave of buying sweep into the market as all those who have held off start the stampede to get on the back of the bull.

Remember, bull markets climb a wall of worry. The Dow 1000 level has been a barrier and a worry to Wall Street for the past ten years.



TECHNICAL INDICES: Here is a reminder, one which I have suggested in previous Letters. A lot of smart analysts are now watching the same indices, such as the specialists shorts, the short interest ratio, the momentum of the Dow, etc. Most of these analysts cut all their analytical teeth during the 1966-74 bear market. They have had little or not experience with bull markets. It takes more, a great deal more, to stop a primary bull swing than it does a primary bear market rally. We happen to be in a primary bull market (and a very powerful one) now.

TECHNICAL EXCURSION: I have included (this page) a daily chart of the Dow, the PTI (which is my own amalgam of eight critical market indices) and the advance-decline ratio. The chart covers all the daily action since this bull market began in late 1974. I would like subscribers to study this chart and pay particular attention to the A-D ratio.



We are dealing with a number of "buying stampedes" during the 1974-76 period. I define a buying stampede as an advance in the A-D ratio of 5 points or more without an intervening correction of 1 point or more. Under this definition, the first buying stampede started in December, 1974 and carried to March, 1975. That stampede tacked on a whopping 8.80 points to the A-D ratio, and this action is marked number 1 on the chart. Next came a correction of 2.25 points in the A-D ratio, and this is marked number 2.

A second stampede (April to July, 1975) advanced the A-D 5.20 points to a July 15 peak. This second stampede was shallower and milder than the first, but it was nevertheless impressive. The stampede ended on July 15 with the Dow at 881.81. The second stampede is marked number 3 on the chart.

At number 4 a fairly severe correction knocked 4.77 points off the A-D ratio while carrying the Dow from 881.81 to 784.16. During the September to December area (number 5) the market backed and filled, although the PTI acted outstandingly strong during that period (and this is a phenomenon that I should have given much more credence to at the time).

On December 9, the A-D ratio hit a low of minus 30.37, then turned up. By February 24, 1975 the A-D had carried to minus 21.64, a net gain of 8.73 points (6 on the chart). Incredibly, the 1976 stampede came within 7/100's of equaling the first 1975 stampede!

Now this is just as fascinating. Following the February 24 peak, the market turned down. By March 4 the A-D had fallen exactly 2/100'ths beyond the 1 point decline limit which technically ends a buying stampede. Because this was such a tiny fraction, I decided to count the buying stampede as remaining intact.

The next day, Friday (March 5) saw a weak market again, and I concluded that the stampede was finished. Then, incredibly, at noon stocks started to rally, and by the close the A-D showed a plurality of 14 more issues up than down. The stampede had again held intact! On Monday, March 8, buying again came into Wall Street, and the task ahead became clear. The problem —— can the A-D ratio punch through its February 24 peak and thus extend the buying stampede and ignite the whole primary bull swing again? Can the Averages push through their February 25 highs again, thus reconfirming all trends as bullish again?

It is notable that the cumulative most-active stocks index (CMAS) hit a new bull market high on March 5 and it did so again on March 8. This suggests continued accumulation despite ongoing internal corrective processes. Just as important, note the downside resistence on the part of the PTI during the February-March "weakness." And then, on March 8, the PTI joined CMAS by hitting a new bull market high. That is extraordinarily strong action for a market that has been in a corrective phase.

IF the A-D does go to a new high it will then be surpassing in extent the first 1975 buying stampede. If that happens, we will be seeing what must be considered one of the great buying stampedes and market rises of modern history.

Thought: In a bear market too much optimism invariably terminates a rally. That is because the bear market optimists are aligned on the wrong side of the major trend. BUT, in a bull market the optimists are thinking and acting in harmony with the primary

trend. Therefore, it is not unusual during great bull markets to see periods in which almost all the bulls are right for extended periods of time (but not forever, of course).

CONCLUSION: Check the various tabulation of peaks on page 1. The CMAS and PTI have led the parade to new high ground. The Averages are following. Since this is a powerful primary bull market, we should see all the indices push to new highs as the primary trend goes on "full steam" during the period ahead. So far, there have been no significant non-confirmations except for Utilities, but my feeling is that Utilities have been correcting rather than topping (the D-J 40-Bond Average, which is also money-sensitive, is currently within pennies of its 1976 high).

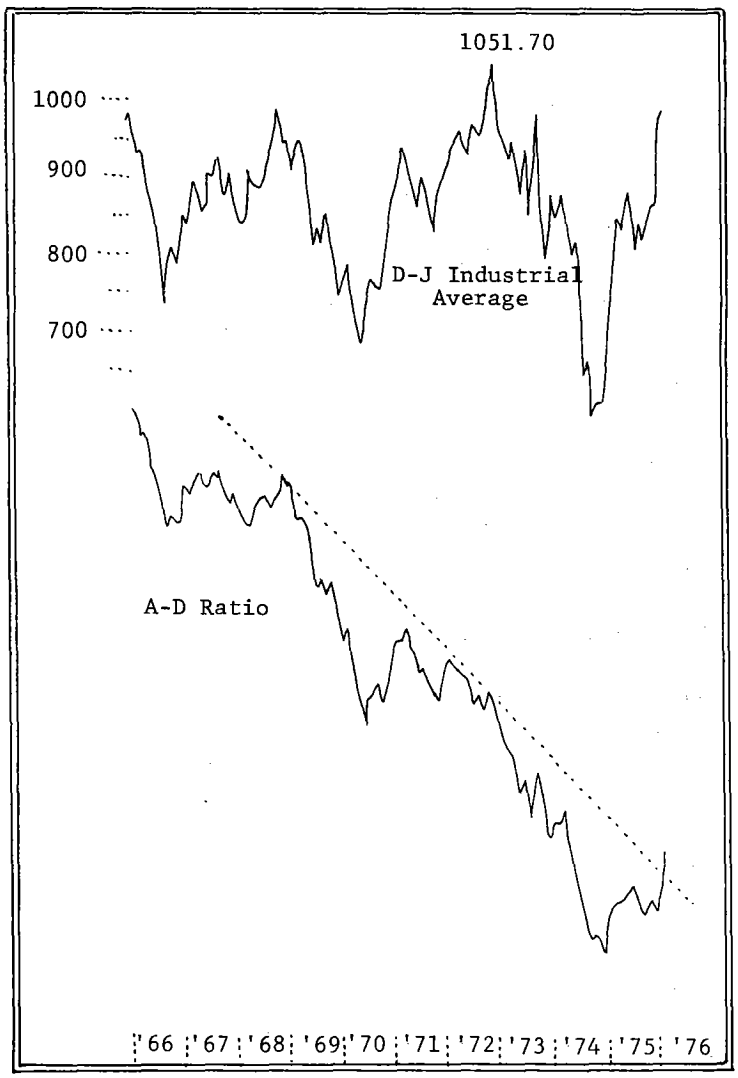
Once again I'll repeat that old adage which it is so easy to forget or overlook: "In a primary bull market, we always give the benefit of the doubt to rising trends and higher prices."

BREADTH: I imagine I've worked as much with the Advance-Decline ratio as anyone writing about the market today. The whole concept of the A-D ratio was formulated by Colonel Ayres of the Cleveland Trust Co., together with James Hughes of New York back in the 1920's. Hughes used to write a market report based on the A-D ratio for Auchincloss Parker, Redpath during the 1950's and '60's, and much of what I learned about the ratio was gleaned both from those reports and from conversation with Hughes.

Hughes always worked on the thesis that price (the Dow Industrials) and breadth (the A-D ratio) tended to move in harmony during every bull or bear swing. Once price or breadth got out of gear or began diverging, the movements in price and breadth usually resulted in an important reversal of the prevailing trend. Hughes stated that these divergences usually resulted in a retracement of the movement which produced the divergence.

For many years I have charted the daily, weekly and monthly action of the A-D ratio (always charted with the Dow Industrials for comparison purposes). Many subscribers purchased the A-D Ratio Chart Albums which I published last year, and copies of this album are still available for $27.50 (the albums include the daily A-D and Dow action going back to 1931).

Studying the daily technical action is indispensible for market students, but I find it equally rewarding to keep an eye on the big picture. Unfortunately, it is far more difficult to obtain weekly and particularly monthly charts of such indicators as the A-D ratio and for this reason I keep and publish my own charts (monthlies) so that subscribers may obtain a greater overall perspective. In many cases, monthly charts will bring out factors that are not visible on the daily graphs, and often the message on the monthlies is more meaningful than anything we can see on the dailies or even the weeklies.



For instance, the month of February, 1976 provided very significant action on the part of the monthly A-D ratio. The accompanying chart deals with the monthly action over the last eleven years in both price and breadth, starting with the major bull market top of early 1966. As you can see, the explosive February rise succeeded in taking the A-D ratio above its preceding major 1975 peak. But even more important, the A-D ratio in February reversed the entire descending trendline which it had traced out over the last decade. This is certainly a dramatic reversal of a most persistent long-term bear trend.

Hughes in his analysis of price and breadth confined himself to studies of divergences, non-confirmations and buying and selling climaxes. He never mentioned trendlines. Nevertheless, I do use trendline analysis, and I feel that the reversal of the bear market trendline in the A-D ratio is vitally important.

I have recently been reading any number of analyses of this market all oriented towards a crystal ball look into the future. For instance, one analyst states that this bull market will have seen its best in the next few weeks to months. Another states that 1977 is the year for the demise of the bull. A third says that the bear forces will resume this year (unless Ford is reelected) and that new lows (below 1974's lows) will probably be witnessed.

Personally, I'm not that smart—nor do I possess the powers of a prophet (as so many others appear to have). Therefore, I'll have to stick with my old Dow Theory thesis, the one that states that neither the duration nor the extent of a primary movement can be predicted in advance.

I am particularly struck by one advisor (who I respect) who is of the opinion that the 1975-76 market rise is a reflection of investor expectations which will simply not be fulfilled. This gentleman makes the case for a lagging economy, a potential collapsing

banking system, and a decided lack of necessary stimulus from the banking system. Maybe so, but I have learned to be skeptical of all analyses which seek to fit what "the market has to do" into the scope of what a particular analyst knows is "really" happening. To put it another way, Wall Street with its millions of eyes knows more than any man or group of men. Wall Street reads all the statistics, Wall Street sees all the facts, and Wall Street is seldom, very seldom taken by surprise in its estimates.

True, Wall Street can get too enthusiastic, just as it can get too discouraged. When that happens we get a correction in a bull market or a rally in a bear market. But as to being wrong on the basic trend of corporate profits or the economy, I've seen the best analysts wrong on the future a dozen times for every time I've seen the market wrong or even deceptive on the prevailing trend. Even then, the apparently "wrong" moves made by the market usually had to do with a change in psychology such as the 1962 smash which was set off by fear of President Kennedy's iron-first attitude towards business as exemplified by his US Steel confrontation.

All of this pertains to the monthly chart of the A-D ratio, a chart which shows the first reversal to the upside in breadth in over a decade. Since the A-D ratio measures the advancing or declining tendencies of the majority of issues on the NYSE, I cannot take this development lightly. It would seem to imply that something more than a year-and-one-half or a two-year rise was in store for stocks. At any rate, I am willing to hold my own fears about the future of the nation in abeyance and let the market tell its story. I've studied business and the economy ever since the 1940's, and on any given minute Wall Street could forget everything I've ever learned and not even know it was missing.

TWO AND TWO EQUALS. . . Of the dozens of letters which arrive here each week, I would say that at least half of them come from seasoned veterans (ten to twenty years) of the economic and stock market scene. Interestingly, one particular thread seems to run through the majority of these letters. The thread runs like this (following is an actual quote from a letter received here on February 26): "Regarding the current explosive phase of the market makes me reminisce that we are having 1928-29 all over again. It would not surprise me, though timing is never that easy, that we are building for a tremendous bust. The recent recession really did nothing to correct anything. Costs did not come down, and there has been no wage readjustment. Now costs are creeping up again. In the meantime the psychological forces are with us for a sensational dynamite rise in the market.

"For senior citizens the squeeze gets tighter and for that vast majority of our poorer classes the noose starts strangling even more. Unfortunately, the greedy classes in our society could not care less about the stresses and pains that others must bear so long as they are sitting so high on the hog.

"Being a senior citizen and living on my savings, I am acutely aware of the predicament. Please do not feel sorry for me as I have treated Uncle Sam very handsomely and have been very aware of the unfolding scene." (J.A.S. Ft. Lauderdale, Fla.).

In an earlier section of the letter, this gentleman berates the unions "with their power to raise wages at will," but it is evident that whether one blames the unions, businessmen, the Government or all three, there is a definite sense of foreboding among many of my readers regarding the future of the nation and regarding their own future in this society.

I wish I had all "the answers" to the nation's problems and to all my subscribers' problems. Unfortunately, I don't. However, I do have my own personal philosophy regarding what should have been done, what could now be done, and what people could be doing in their own lives, as far as coping with the difficult conditions of our times.

But the fact is that each generation has had its own set of "horrendous problems." I personally remember, for instance, what it was like to have an operation or even a serious wound before the discovery of penicillin or the sulpher drugs (I almost died of a mastoidectomy when I was eight). My mother (whose 23-year old sister did die of a mastoidectomy) remembers what is was like before the advent of the radio or the automobile. My grandfather had to cope with a near-wrecked economy and a divided nation during the Civil War. And my grandfather found the times so dangerous that he kept five giant Mastiff dogs on his grounds in his home near Charleston, South Carolina.

As I see it, the great danger today is moral and economic decay, both of which are a direct outgrowth of the "now" philosophy. The operative thought behind this philosophy is "I want it now." Here's the way it works: If it's material or merchandise I want, I'll borrow to get it now. If it's something the politicians or the Government can give me, I'll vote for the man who will give it to me now (they can float bonds, increase deficit spending, any damn thing they want, but they better deliver now). If I can't get it any other way, I'll steal it, embezzle it, I'll lie to get it, I'll blackmail or kidnap someone to get it, but I'll get it!"

Those are some of the harsh fundamentals of the now philosophy, and they're rotting the foundations of the Free World. They represent a collapse in world morality. And the barometer of this collapse is the worldwide epidemic of crime and inflation.

As far as I can see, the participents in the now trend break down into three broad categories: (1) the unscrupulous corporations who will do anything for a profit, (2) the greedy workers who will do anything for higher wages, i.e., strike, burn, bankrupt a company, even wipe out their own jobs, (3) the individuals who will rip you off as quickly as they will take a breath. These individuals have no use for the nation, its businesses, the unions or any other unit of society. They're modern marauders with only one motivation, "Gimme, whatever's yours is mine."

Actually, there's nothing terribly new about all this. The only novelty about the situation is that it is now so widespread, so commonplace. You can see it in your neighbor, in the guy who works next to you, in the girl who's serving you in the local restaurant, in your boss and in your employee.

Of course we have seen it before, but maybe not this close to home, and that's why I'm writing about it. We saw it (historically) when the Mongols almost conquered the known world, we saw it when the barbarians overran the Roman Empire, we saw it when

the Spaniards conquered Mexico, we saw it when Hitler swept across Europe. In every case, fortunately, the ultimate end was the same. As Mary Baker Eddy once put it, "The only power evil has is to destroy itself."

Looking back over history, the U.S. has overcome many emergency situations, both internal and external. And each time it has emerged stronger than before. It is a characteristic of this nation that when a great crisis has presented itself, a man capable of leading the nation has also arrived. Will it happen again? Will a modern Washington or Lincoln or Teddy Roosevelt appear? I hope so, because to my mind, the time is approaching when such a man will be needed.

WHERE SHOULD WE BE? The accompanying chart shows seven investment "items" each quoted in dollars. I call it the "where should we be" chart, and I find it informative to scrutinize this picture every month or so.

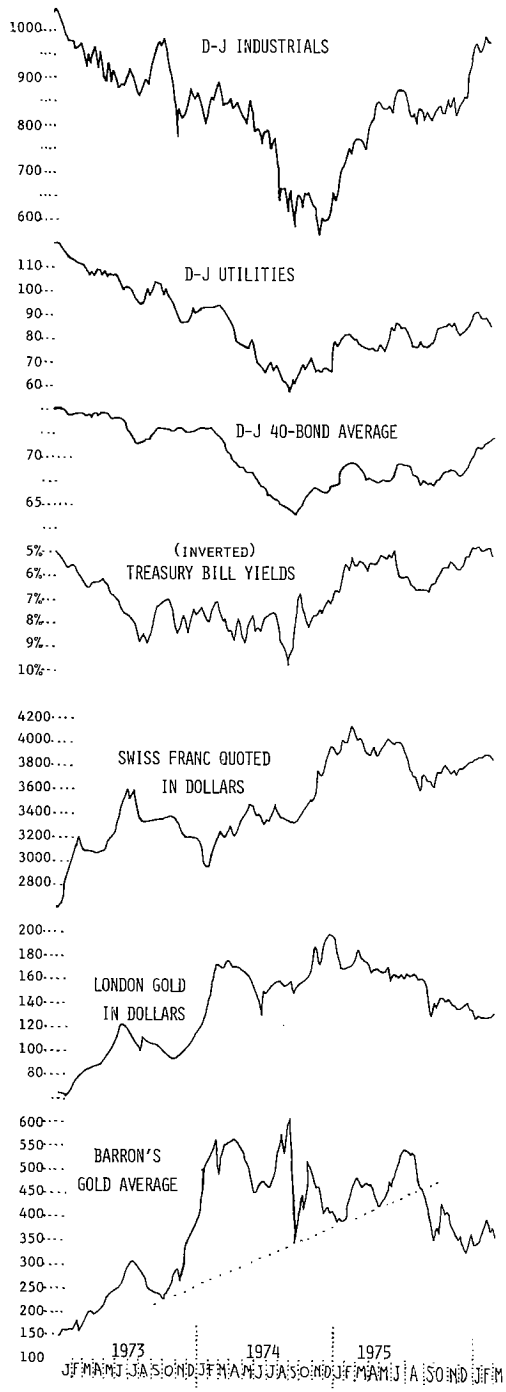
First, we have the items in obvious bull trends. These are the sectors which have been, and still are appreciating against the dollar. The first obviously bullish item is the stock market as measured by the Dow Industrial Average. The Dow has been rising in terms of dollars since December, 1974. The second bullish item is the Utilities, which have also been rising since 1974. But the Utility trend is now flattening, and we have to label the Utilities as in a secondary bear trend before long.

The bond market has been kind to investors ever since late-1974, and Dow Jones' broad 40-Bond Average has worked up mightily from its 1974 low of 64.13 to its recent high of over 72, a rise of almost 13%. So far, the bond trend is still bullishly intact. The short-term end of the debt market, the Treasury bills, have also risen strongly over the past year-and-a-half, resulting in yields literally dropping in half — from the 9% area of 1974 to the 4.7% area of a few weeks ago.

Everybody loves the Swiss franc, and all through 1973 and up to early 1975 the franc did beautiful against the dollar. In February, 1976 the franc weakened against the dollar, hitting its low in April. Since then the franc has been climbing lazily (even while the American digital watches were beating the brains out of the Swiss watch industry). Whether the franc goes to new highs against the dollar remains to be seen.

But with the combined 1976 and '77 US budget deficits moving into the $130 billion level (no, I'm not kidding), I do find myself wondering whether the dollar (or any other currency, for that matter) will survive at all. Parenthetically, the US is coming out with a new $2 bill which will probably supplant the dollar as the "small paper unit." This is scheduled for early Spring, 1976. Then the Government is planning to try a coin dollar, which will obviously relegate the dollar to small change status! I ask myself whether any action could be more calculated to degrade the currency of the US.

Perhaps ironically, the dollar has actually been looking rather "good" of late, and I see three reasons for this. (1) Gold has been putting on an insipid (if you own it you might even say "lousy") performance. (2) The US inflation rate has been declining over the past six months. (3) Many foreign currencies have been caving in, with only the German mark and the Swiss franc (I'm talking about major currencies) acting like they are worth anything at all.



In view of the above, we can wonder why gold on the chart looks so lackluster. In the last Letter I opined that the bear market in bullion was probably over, and I am still of this opinion. I personally doubt that we will see bullion smashing the $125 barrier in the months ahead. Nevertheless, charts don't lie, and we can see that gold has been in a bear market since mid-1974. But that's where it's been. I'm saying that where gold is eventually going will be better than where it's been.

Finally, we come to the much-battered Barron's Gold Average. It is clear that just as the man who was holding stocks since 1974 has been doing better than the dollar hoarder, so the dollarphile has been doing better than the goldbug. But every dog has his day, and gold shares (at least in the Western hemisphere) will have their day again.

GOLD: It's becoming clear that when we talk about "gold" these days we're talking about three different animals. There is bullion, there is the South African share market, and there is the US and Canadian share market (the US really being represented by a single entry, Homestake).

I stated in the last report that I thought gold bullion had hit its bear market bottom in January at 124. I am still of that opinion. Many readers are surprised that with the trouble in So. Africa the price of bullion has not moved up. But I'll say again that the end of a bear market does not guarantee an immediate upward explosion. What it does mean is that the price movement has made its low. I believe that gold made its low at 124. If I am correct, then in due time (a few days, a few weeks, six months, a year, I haven't the faintest idea) a major rise will begin. That rise may have started (since bullion is now $10 above its low) or bullion may test the bottom again. But I believe that 124 will stand as the bear market bottom.

What does that mean? It means that if you are willing to forego 8% to 10% yield (which you can get on any number of stocks and bonds) you can buy bullion. It means that you can swap paper for the oldest store of value in the world if you are willing to wait and forego the fattest yields on securities since the Civil War. You want to know what I would do? I'd put no more than 10% of of assets into bullion at this time. Why 10% or less? Because $10,000 at 9% interest in three years will be $12,950, but the same $10,000 in bullion over three years could stay right at $10,000 if gold just sits near its bear market lows. It's as simple as that!

Next, the So. African shares. So. Africa has four big problems. The price of gold, the price of labor, its own racial problem, and the possibility of war with its black neighbors. We've already discussed the price of gold.

African wages were boosted twice in '74, once in '75, and are now four times the level of May, 1973. How's that for black progress! But wait, there's more. Look at these statistics (and you don't have to be an accountant). In So. Africa there are 4 million whites, 18 million blacks. In Rhodesia there are 237,000 whites, 5.8 million blacks. As they say in Vegas, "Them's heavy odds." Result, time is running out on Rhodesia— fast. And So. Africa has got to move very explosively fast towards racial equality.

Let's get some facts straight. So. Africa today could probably take on all Africa and knock it flat within a week. Second, that's not the problem. The problem is that such a war wouldn't solve a thing. The blacks work the mines, and the blacks are also in the So. African army. Would So. Africa's blacks fight other blacks? No one knows. Would they work the mines forever if they don't get what they want? The answer is that they would not. Finally, investor psychology is what gives the P/E ratios to the mines. If investors don't like the way things are going in So. Africa, they'll be paying 2 times earnings for the mines before it's all over. Conclusion: So. Africa must solve its internal problems.

As for war with its neighbors, no one can answer that. If black Africa decides that it's Africa for the black Africans, then war will ultimately follow. If black Africa decides that they want it all except So. Africa (which would prove too costly to take), then all may work out, assuming So. Africa moves towards racial equality. But I'll make this statement now, and I'll stand on it. The winds of equality are now sweeping across the world, and when you couple this with Chinese and Russian arms, you get a rather combustible mix. There's no way that Africa's whites are going to continue to hold on to the white supremacy concept and all that it implies. The basis of So. African society is either going to be revised rapidly or the trouble is going to escalate rapidly.

To put it another way, So. Africa's blacks are going to choose "for" or "against" their government soon. I hope they will be given reason to choose for.

What does all this mean for So. African shares? To my mind, it means that they are no longer in the investment class, they are speculations which will have the continuing onus of So. Africa's problems hanging over their head. Consequently, I would only buy So. African shares on a ratio of 1/3 So. African to 2/3 North American. This is the reason I have suggested Homestake with Amgold and in the last Letter I added Dome Mines and Camflo (both Canadian) to anyone who wants to take a "pilot" position in gold shares at this time.

STOCKS: With the Dow knocking on the 1000 door, I hesitate to recommend still more buying. Subscribers, if they had any interest in riding the primary trend, must already have many of my recent recommendations. The power of a primary bull trend is always amazing to watch. A.J.B. of Bloomfield Hills, Michigan, has just sent me a run-down on all my recommendations since the bull market began. His figures show that stocks recommended between December 1974 and March 1975 appreciated 102% on average. Stocks recommended since January of this year have appreciated 47% on average. Mr. B. has taken the trouble to list all stocks recommended with gains, and I thank him for the big run-down.

Well-one more: An interesting AMEX stock is Kaiser Industries, a holding company with large interests in steel, aluminum, aerospace, electronics, cement and gypsum. The stock's at just over 11 (AMEX) and selling for about 4 times estimated 1976 earnings. It has about $44 of assets per share, and Value Line estimates KI may earn $2.75 per share. KI is an asset play at a big discount.

LATE NOTES: I just now received the latest major (monthly) relative strength changes from Mr. Ray of Ray*Signals, 43 Lake Ave., Montrose, Pa. 18801. The new group reversals to the upside are most interesting. They include capital goods groups Cement and Aluminum. Significantly, Chicago Pneumatic Tool and Clark Equipment, both in the machine groups, have turned up, thus confirming what I noted in the Letter regarding strength coming into the capital goods segment of the market. Also turning up in relative strength is Real Estate (a very important and bullish group reversal). Finally, the Small Loan and the Vending Machine groups have turned bullish on a RS basis. Two low-priced stocks which have already been recommended, City Investing and TWA are now on the new bullish RS list, as is Eastern Airlines. If you have to add to your portfolios, I suggest sticking to the above issues.

NEXT MAILING: March 24th.